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SUBJECT: Bountiful Harvests: A Look at Cross-Strait Agricultural Trade

¶1. (U) SUMMARY: Agricultural goods produced in Taiwan? Produced in China with Taiwan seeds by Taiwan farmers? Produced in China with Taiwan seeds by Chinese farmers claiming to be Taiwan farmers? Produced in China with Chinese seeds claiming that the produce was a Taiwan product or "Grown in Taiwan"? We've encountered all of these explanations about the quality or lack thereof of Taiwan ag products, many of which are too expensive for Chinese consumers, on the mainland market. On the other hand, China is reaping the extensive benefits of Taiwan agricultural investments, including higher productivity, higher quality products, higher rural incomes, and a certain amelioration of the political disdain that some Taiwan farmers, especially those with DPP affiliations, have with mainland politics. Increasingly, they prefer not to rock the boat or make waves in China in ways that could have an impact on their ability to do business. In contrast, Taiwan does not appear to be experiencing much benefit of closer agricultural ties. END SUMMARY

The Promised Land

¶2. (U) Taiwan investment in agricultural projects is continuing on a large scale. Over the past fifteen years, according to the Guangdong Provincial Government, 1,000 Taiwan agricultural enterprises have been set up in the province, with total investments surpassing USD 1 billion. In Fujian, the Provincial Government claims to have 1,783 Taiwan agricultural enterprises with investments exceeding USD 1 billion.

¶3. (U) In October 2006 at the Boao Cross Straits Agricultural Cooperation Forum in Hainan, members of the Kuomintang and the Chinese Communist Party pledged to support a number of measures aimed at improving cross strait agricultural trade.

¶4. (U) Econoff conducted interviews with Taiwan farmers in the consular district, including Shunde, Dongguan and Zhanjiang in Guangdong province, Zhangzhou in Fujian province, Haikou in Hainan province, and Guilin, in Guangxi province. The farmers grow a variety of cash crops, such as fruits, hot peppers, flowers, and shrimp.

Profiling a Taiwanese Farmer

¶5. (U) The Taiwan growers, particularly fruit growers, tended to be from southern areas of Taiwan, in particular Tainan and Pingtung County. Some farmers moved to China during the 1990s; others were more recent arrivals. The more recent arrivals tend to keep their families in Taiwan and commute back and forth from Taiwan. Those

that came to mainland China earlier tended to have either moved their families to China or married mainland women and remained on the mainland.

¶16. (U) All of the farms visited were small or medium sized. In most cases, their products were destined for domestic consumption in China. Only in certain instances, such as orchids, were products meant for export. None of those interviewed would openly admit that their products were for export to Taiwan. All claimed that it was currently illegal or too difficult to export their products to Taiwan. In addition, the farmers said that Taiwan was trying to export Taiwan agricultural products to China, implying that there would be no market for their products in Taiwan.

Show Me The Money

¶17. (U) Always afraid of the tax man, those interviewed were vague about their revenues and their profits. One farmer in Zhangzhou, Fujian, claimed that his farm lost money almost every year. However, he also admitted that the farm had doubled in size since its establishment in 2001. In Dongguan, one farmer stated that nearly 70% of all agricultural enterprises fail to make money in the first 5 years. However, in Guilin, another farmer said that although there were high initial costs, it was easy to break even within three years; everything afterward was profit. He stated that farmers investing in China were usually successful and wealthy farmers in Taiwan.

¶18. (U) Common elements attracting Taiwan farmers to invest in China include access to the mainland domestic market, cheap land, and tax holidays. All of the farmers complained about labor, ranging from the laziness of the farmhands in Hainan, to workers failing to come

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back after holiday in Fujian, language and cultural issues. These issues "forced" one farmer in Guangdong to import workers from southern Fujian. Another frustration was the lack of direct transportation links to Taiwan and access to Taiwan media, such as TV or newspapers.

I Am from the Government and I Am Here To Help

¶19. (U) In the interviews, Taiwan farmers generally expressed satisfaction with local government officials. All had concerns/complaints/problems expedited by local government officials. In several cases, such as in Shunde, government officials, including customs and quarantine officials, visited the farmers and asked if they needed any assistance.

¶10. (U) All of the farmers were aware of the announcement made at the 2006 Boao Cross-Straits Agricultural Co-Op Forum which promised preferential treatment to Taiwan farmers. Most were unable to comment whether the announcement encouraged more Taiwan investors to come to China. Farmers from Guangdong and Fujian commented that since the announcement, local government officials appeared to be more accommodating to Taiwan investor needs.

You Reap What You Sow

¶11. (U) In all cases, the farmers used Taiwan seeds and farming techniques in China, leading to a dramatic increase in productivity and quality of the products. In local markets, agricultural products raised from Taiwan seeds usually have a 10-20 percent premium over local products. Although this does not match the 50 percent premium of imported Taiwan products in China, it does translate into significantly higher revenues as imported seed also produces more fruit.

¶12. (U) In some cases, Taiwan farmers train Chinese farmers to grow agricultural products in return for a guaranteed price upon harvest. By doing this, the Taiwan farmers avoid the bureaucratic pitfalls of purchasing Chinese real estate. The Chinese farmer learns better farming techniques and earns substantially more income. In Dongguan, one Taiwan farmer said a typical Chinese farmer growing fruit may earn RMB 3000 (USD 395) from his own crop, but if he grew

for a Taiwan farmer, he could earn RMB 5000 (USD 670).

¶13. (U) Econoff inquired about the protection of technology, such as seed or farming techniques. In Guangxi, Taiwan farmers admitted that advanced technology, including the ability to research and produce better seeds, can not be transferred to the mainland. In contrast however, Zhanjiang local officials were quick to brag about how local farmers were able to copy the techniques of the Taiwan farmers and go into business themselves. In Fujian, the Taiwan farmers dismissed this worry, stating that local farmers lacked the knowledge and the capital to compete against Taiwanese farmers. In addition, local farmers generally do not have independent access to Taiwanese seed, which hampers their ability to compete against Taiwan products.

Slow Boat to China

¶14. (U) In April 2006, the Mainland Affairs Council in Taipei complained that Taiwan's intellectual property rights were abused by Chinese farmers, claiming their products were from Taiwan. In addition, the Mainland Affairs Council complained of the slowness and inefficiency of China Customs, which in turn, reduces the overall value of Taiwanese agricultural products being exported to China, which in 2005 was a miniscule \$1.3 million.

¶15. (U) Based on interviews with two major supermarket chains, Wal-Mart in Shenzhen and Park N' Shop in Guangzhou, Taiwan agricultural products, primarily fruits, remain at a disadvantage in the Chinese market. Both chains sell some Taiwan fruits, but the cost of the fruit and shipping make them prohibitively expensive compared to locally-grown fruits. Delays in delivery due to slow customs clearance also cause fruit to deteriorate in quality, making it harder to sell produce at already high prices. Both chains expressed a preference to purchase locally grown Taiwan fruits rather than import directly from Taiwan.

¶16. (U) These responses mirror interviews with Taiwan fruit growers in China. All of them grow primarily for the domestic market; those with farms still in Taiwan do not export from them to China,

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preferring to use domestically-grown Taiwanese fruit. The farmers cited lower input costs and good transportation to far flung major cities such as Beijing, Shanghai, Chengdu, and even Urumqi where their products fetch good prices. They cited both high costs and customs issues.

¶17. (U) Growers in Hainan and Fujian complained of local farmers passing off their own fruit as from Taiwan. Growers also complained of the lack of regulations controlling the origin of fruits. While one farmer in Hainan sold fruit in boxes stating "Taiwan Pineapple; Grown in Hainan", he admitted that local farmers simply labeled their boxes as "Taiwan Pineapple" with no indication where the fruit was grown.

From Green to Blue

¶18. (SBU) Econoff inquired about the Taiwan farmers' political affiliations. In all cases, they claimed to be apolitical. However, in Hainan, one farmer expressed strong feelings against Taiwan's current president, Chen Sui-bian. In Zhanjiang, another farmer said that all of the parties in Taiwan were corrupt so it was simply choosing the least corrupt. In Dongguan, one farmer said that those who were blue (Kuomintang supporters) stayed blue; those who were green (DPP supporters) usually became less green. He admitted that his family members were ardent DPP supporters, but said in the next election he intended to vote for the Kuomintang. However, his parents would still vote for the DPP due to large pensions allegedly being lavished on rural retirees.

Two-Way Trade? Only the Shadow Knows

¶19. (SBU) Although superficially it appears that agricultural trade

is one way, with Taiwan agricultural products being exported to China and Taiwan farmers investing in farms on the mainland, there are indications that some products are being exported to Taiwan via back channels. In Hainan, local officials openly admitted that Taiwan fishing boats often met with Chinese fishing boats to purchase their catch rather than catching it themselves. In Guangdong, a flower farmer said that some of his mainland-raised Taiwan orchids were exported to Taiwan, though they were first transshipped via South Korea and Vietnam and there certified as Korean or Vietnamese origin. However, Taiwan farmers in China continue to hide some aspects of their investments. In one instance in Guangxi, two Taiwan farmers spoke in Taiwanese among themselves about not revealing the extent of Taiwan agricultural technology transferred to the mainland, not knowing Econoff understood their dialect. In another case in Fujian, it appeared that the Taiwan farmer wanted to say more but not in the presence of local government officials.

What Is Good For The Goose...

¶20. (SBU) In the areas that Econoff visited that had Taiwan agricultural investment, he noted good transport systems and relatively good incomes based on the quality of housing visible from the road, compared to other rural areas with no Taiwan investments. Farms located in Taiwan investment zones appeared to be well run and well maintained. Both farmers and local officials bragged about the large increases in productivity due to better seeds and superior farming techniques. Local officials, working through both word of mouth as well as organized groups visiting from Taiwan, continue to encourage investors from Taiwan to visit and offer assistance in setting up their farms in China, clearly recognizing the beneficial impact of Taiwan agricultural investment.

...May Not Be Good For the Gander

¶21. (SBU) Taiwan products grown on the mainland appear to be limiting any effective entry of Taiwan agricultural products into China. Products grown in both the mainland and Taiwan from Taiwan seed are usually similar in quality but with significant differences in price. While demand for Taiwan fruit is great, the average Chinese cannot afford products imported from Taiwan. However, mainland grown-Taiwan fruit provides a cheaper and reliable alternative that is growing more popular with Chinese shoppers. Finally, the growing agricultural ties appear to be affecting a key constituency of the DPP, the farmer. While rural southern Taiwanese

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are among the key supporters of the DPP, the lack of enthusiasm by Taiwan investors in the mainland of any moves to upset the status quo is quite striking. The farmers with whom we spoke all voiced their desire for a stable, peaceful environment to conduct business here in China and their intention to vote for whoever can deliver this.

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